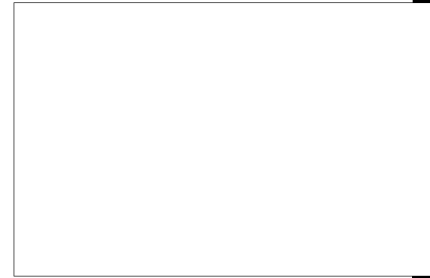
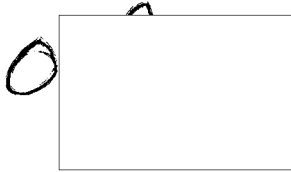




**Director of
Central
Intelligence**

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National Intelligence Daily

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***Friday
19 March 1982***

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CENTRAL AMERICA:

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Resistance to the presidential election of General Guevara has subsided in Guatemala, and some Christian Democrats may join the new government. The Salvadoran military is exploring possible arms purchases from Chile.

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Opposition Role in Guatemalan Government

1/2 Christian Democratic Party President de Leon reportedly is under serious consideration for the position of foreign minister. Other Christian Democrats are opposed to close association with Guevara, but the party will accept the congressional seats and mayoralties it won in the recent election. []

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3 Comment: De Leon is likely to accept the offer, although Guevara is unlikely to grant him wide authority. The President-elect is probably interested in exploiting de Leon's excellent contacts with Christian Democrats in Latin America and Western Europe in hopes of improving Guatemala's international image. []

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Salvadoran Interest in Chilean Arms

4 A Salvadoran military officer visited Chile in early March to discuss the possibility of purchasing armored cars and aerial bombs. The bombs are designed for use by helicopters and light aircraft. The Chileans, however, may not be willing to provide long-term credit for the deal. []

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4 Comment: In addition to Chile, the Salvadoran military recently has been investigating the purchases of weapons and ammunition from Argentina and Taiwan. The high command may be seeking alternatives in case US military aid should be reduced. Without favorable credit terms, the chances of a major deal are slim. []

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ISRAEL: West Bank Council Removed

The dissolution by Israel yesterday of the town council of al-Bireh for refusing to meet with the civil administrator of the West Bank territory may foreshadow similar moves against pro-PLO officials in other towns there.

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The Israelis believe that many mayors and councils are intimidating Palestinian moderates in the West Bank who might be interested in joining the Camp David process,

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Earlier this week the Israelis banned the pro-PLO National Guidance Committee, an organization of West Bank activists established in 1978.

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Comment: The Israelis appear determined to adopt tough policies aimed at undercutting PLO and Jordanian influence in the West Bank.

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The dissolution of the council places West Bank mayors in a difficult position. They cannot go back on their refusal to meet the civil administrator without losing face, but they are aware that the Israelis want a pretext to oust them and are reluctant to play into Tel Aviv's hands. As the Israelis press the issue, however, the mayors probably will give in and attempt to preserve their positions.

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OPEC: Ministerial Meeting

An informal OPEC ministerial conference begins in Vienna today to discuss the proposed total production ceiling of 18.5 million barrels per day. []

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Comment: The conference probably will agree to an informal scheme to allocate the output of each OPEC member within the ceiling. The \$34 benchmark price for Arab light crude oil will be strongly defended, but the prices of some other crudes are likely to be adjusted.

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Libya and Iran probably will object to the plan, if only to protest the comfortable position Saudi Arabia has arranged for itself. If they decline to participate, the other members may ignore them in the belief that their combined production is unlikely to rise much above the 2 million barrels per day allocated to them. []

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1/2 High Saudi production has been blamed for OPEC's current market difficulties, and the Saudis will be urged to make further reductions from their new ceiling of 7.5 million barrels per day. Although Riyadh would prefer to keep output high, it has pledged to allow market conditions to determine production levels. []

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A destructive new round of price cutting could result if no consensus is reached. Any agreement supported by most of the members will be cited as reaffirming OPEC unity. []

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A ceiling of 18.5 million barrels per day would reduce OPEC production by about 1 million barrels per day. Continued use of excess oil stocks is likely, however, and this will tend to keep prices down at least through midsummer. []

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FRANCE-CHAD: Diplomatic Maneuvering

France is increasing behind-the-scenes efforts to achieve at least a limited reconciliation among the feuding factions in Chad.

Foreign Ministry officials recently told US officials that Paris is behind an OAU attempt to ease tensions in Chad and encourage the formation of a new government there. As a first step, an OAU delegation to N'Djamena earlier this week persuaded the Goukouni regime to request UN assistance in funding the OAU peacekeeping force and in convening a donors conference on aid to Chad. The conference would bring together OAU members and leaders of the Chadian factions.

Paris would then attempt to get the factions to coexist in a restructured government, which would form a new police force and national army. France would be willing to supplement proposed UN funding of the peacekeeping force and provide substantial aid to Chad, including advisers to train the Chadian Army.

The French officials say they agree that the Nigerians should be kept involved in the Chadian question. President Mitterrand and Nigerian President Shagari will discuss the issue in detail soon when they meet in Paris.

Comment: The renewed French effort to end the political impasse in Chad apparently results in part from French suspicions that the Soviets want to inflame the situation there. French officials also remain concerned about the potential for Libyan meddling, although they doubt that Tripoli will intervene militarily soon. President Goukouni almost certainly will rebuff new initiatives aimed expressly at persuading him to negotiate with rebel leader Habre.

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EGYPT-ISRAEL: Jerusalem Issue Threatens Autonomy Talks

The Israelis, piqued by Egyptian President Mubarak's refusal to visit Jerusalem, are insisting that at least part of the next round of autonomy negotiations be held there for the first time. Defense Minister Sharon has publicly warned the Egyptians, who oppose the demand, that "if there are no talks in Jerusalem, there will be no talks." [REDACTED]

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13 Comment: By publicizing their demand, the Israelis have made it difficult for either side to accept a compromise. Any backtracking by Mubarak on the Jerusalem issue could lead to serious criticism at home as well as complicate his efforts to improve ties with Saudi Arabia and the other Arab states. Mubarak may still be willing to accept a face-saving formula for continuing the autonomy talks such as holding the next session in Washington. If the Israelis continue to insist on a session in Jerusalem, however, Mubarak may allow the autonomy process to be suspended indefinitely. [REDACTED]

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USSR: Industrial Production Still Down

Civilian industrial production in the USSR continues to lag, with output for January and February together below the level prevailing in the same two-month period last year. Production of rolled steel declined by 4 percent, and production of cement and of freight cars dropped 12 and 10 percent respectively. The supply of electric power and gas continues to rise, but declining coal and oil production is keeping energy supplies tight. The decline in oil production--0.2 percent below the first two months of 1981--marks the first time on record that monthly output has fallen below the level of the previous year for two consecutive months. [redacted]

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Comment: There may be some recovery later this year, but a record low annual rate of growth is becoming a definite possibility for 1982. [redacted]

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(10)

MEXICO: Shifts in Economic Posts

The recent resignations of Treasury Secretary Ibarra and the Director of the Bank of Mexico apparently were motivated by both personal and political considerations. Ibarra rivaled Miguel de la Madrid for the ruling party's presidential nomination and has not worked well recently with President Lopez Portillo. Two close supporters of de la Madrid have replaced the outgoing officials. [redacted]

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Comment: By appointing de la Madrid's associates to fill policymaking positions, Lopez Portillo is striving to ensure a smooth transition of power in December, unlike his own experience six years ago. The moves also suggest that he is beginning to share authority over economic policy with his fiscally conservative successor, a view supported by Lopez Portillo's recent reference to himself as a "devalued president." [redacted]

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SPAIN: Socialist Plans on NATO Accession

Socialist leader Felipe Gonzalez recently told a North European Social Democrat that he will do nothing to disrupt accession to NATO if his party forms the next government. Gonzalez reportedly stated that he would even support completion of the accession process if Spain had not joined NATO by the time of the national election, which has to be held no later than next spring.

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1/ ✓ Comment: Gonzalez has been backing off from his party's anti-NATO stance, but this is the first statement that he would actually promote the accession process. Gonzalez has long planned to form a coalition with parties to the center in order to mollify the military, and he probably would cite coalition obligations to anti-NATO militants in his own party. The election is likely to be held this summer or fall, and Gonzalez probably hopes and expects that the accession process will be completed before then. This would allow him simply to accede to the status quo.

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(14)

ZAMBIA - SOUTH AFRICA: Kaunda Offers To Meet With Botha

1/ ✓ President Kaunda told a South African journalist yesterday that he is willing to meet with South African Prime Minister Botha. Kaunda said that, if invited, he would consider going to South Africa. He added that such a meeting must not be secret. In 1975 Kaunda met with South African Prime Minister Vorster in an unsuccessful attempt to speed Rhodesia's independence.

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2/ ✓ Comment: It is unclear whether Kaunda's offer represents an offhand remark or a calculated gesture. Kaunda recently has been worried about Zambia's security, and he believes that South Africa is pursuing increasingly aggressive policies aimed at subverting the Frontline States.

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SYRIA-IRAN: Oil Agreement

According to initial press reports published on Wednesday in Damascus and Tehran at the close of Syrian Foreign Minister Khaddam's visit to Iran, the two sides concluded a trade agreement under which Iran will begin supplying the Syrians with 175,000 barrels of oil per day--worth about \$2 billion annually. [redacted]

[redacted] if the deal is as large as claimed, it would end Syria's need for Iraqi oil. It also would reduce Iraq's leverage in matters affecting the Syria-Iraq pipeline, through which Iraq pumps about 50 percent of its oil exports. [redacted]

Comment: It is not clear how financially hard-pressed Syria would be able to repay Iran even if Tehran has agreed to extremely favorable terms. [redacted]

(16)

SOUTH KOREA: Anti-American Incident in Pusan

South Korean police have launched a massive search for the unidentified arsonists who firebombed the US Cultural Center in Pusan yesterday and who scattered leaflets containing anti-US slogans elsewhere in the city. No Americans were injured, but one Korean was killed, three others injured, and the building was heavily damaged. The last such incident occurred in 1980, when dissidents set fire to the US Cultural Center in Kwangju. [redacted]

Comment: The arsonists probably were South Korean dissidents, but North Korean involvement cannot be ruled out. For the past year South Korean authorities have been concerned about student and dissident use of anti-American rhetoric stemming from their opposition to US support for President Chun's regime. Attacks on US targets will attract little popular support, but they could encourage other dissidents to adopt similar tactics. [redacted]

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SPECIAL ANALYSIS

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EASTERN EUROPE: Difficulties in Obtaining Credit
[]

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East European countries are having increasing difficulty obtaining Western loans, and Hungary, East Germany, and Yugoslavia may have to reschedule their debts by the end of the year, along with Poland and Romania. The import reductions forced by the lack of credit will, at the least, depress domestic growth and living standards in all five of these countries and have serious implications for political stability in some. Only Bulgaria and Czechoslovakia, because of their policies of financial conservatism, seem immune for the time being. The USSR, facing serious problems of its own, will not be able to provide enough help and, in fact, is aggravating the problem by cutting oil deliveries. []

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2 The poor climate for borrowing faced by Eastern Europe for more than a year results from bankers' reassessment of the creditworthiness of the countries in the area as a consequence of the Polish and Romanian financial crises and the growing concern over Eastern Europe's economic problems in general. No East European borrower can now obtain a syndicated hard currency loan from Western bankers, and bankers are refusing to refinance some debts as they come due. Even the export credit agencies of some Western governments are not willing to increase their lending. []

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2 Eastern Europe's borrowing problems would increase if Western governments were to join the bankers in reducing loans they make available. This would prompt the bankers to curtail their loans further to Eastern Europe. []

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Credit Interdependent

2 Although Poland's private debt rescheduling agreement for 1981 apparently will be signed soon, it cannot hope to earn a large trade surplus or to obtain enough debt relief and credits to cover its debt service obligations of \$10 billion for 1982. Even if Poland manages to avert

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2 default, its financial problems are likely to damage the creditworthiness of other East European countries. A Polish default would delay and make even more difficult the return of the other countries to Western capital markets. []

2 Romania is just beginning to negotiate the rescheduling of its private debt. Even with debt relief, however, Bucharest would face a large gap between available funds and its minimum requirements. []

Romania cut imports substantially last year, leaving few areas to cut further without damaging the already-strained economy. Reserves are low, and Romania is reluctant to draw from its gold stock, partly because some of it is obligated as collateral for loans. []

3
4 Hungary, East Germany, and Yugoslavia are concerned that banks have lowered their medium- and long-term exposure over the past year, and some recently also have reduced their short-term lines of credit. Budapest is asking to delay payments on some debts falling due and has warned that it will have to request a rescheduling by midyear if the borrowing climate does not improve. []

3
4 Hungary is counting on IMF membership--which it may receive in May--to give it a new chance to deal with immediate financial troubles. East Germany has encountered problems in arranging credit--even from West German banks--to pay for imports and is casting about for small credits to cover current needs. []

5 Although Yugoslavia is not a member of CEMA, bankers and governments are grouping it with the rest of Eastern Europe and are closely examining its economic and financial problems. Two Yugoslav commercial banks recently requested extensions on payments due at the end of this month, and Belgrade probably will not be successful in its new bid for the \$400 million syndicated West European loan that was refused in late 1981. []

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Czechoslovakia's finances seem more solid. Prague, however, has voiced concern about the cutback in lending and probably will face a serious cash shortage next year if the bankers do not ease their lending restrictions.

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Implications

The East Europeans rely on Western credits to strengthen and expand their economies and to assert some independence from the Soviets. Loss of credit would cause agricultural and industrial output to decline and fewer consumer goods to be available. In most of these countries, the public would tolerate a fall in living standards, but in Romania and Yugoslavia the population will add this problem to an increasing list of other grievances.

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Some regimes may reluctantly decide to turn to the USSR for help, but Moscow will be able to offer little, because it faces serious economic constraints of its own. In fact, the USSR is cutting back on deliveries of oil to Czechoslovakia, East Germany, and Hungary.


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